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TO RUEHC/SECSTATE WASHDC 6959
INFO RUEHBR/AMEMBASSY BRASILIA 8093
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RUEHBU/AMEMBASSY BUENOS AIRES 2732
RUEHAC/AMEMBASSY ASUNCION 3003
RUEHMN/AMEMBASSY MONTEVIDEO 2338
RUEHSG/AMEMBASSY SANTIAGO 2047
RUEHLP/AMEMBASSY LA PAZ 3346
RUEHFR/AMEMBASSY PARIS 0265
RUCPDOC/USDOC WASHDC 2782
RUEATRS/DEPT OF TREASURY WASHDC
RHEHNSC/NATIONAL SECURITY COUNCIL WASHDC
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UNCLAS SECTION 01 OF 02 SAO PAULO 000426

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NSC FOR FEARS
STATE PASS FEDERAL RESERVE FOR PROBITAILLE
STATE PASS USTR FOR SCRONIN
DEPT OF TREASURY FOR JHOEK
USDOC FOR 4332/ITA/MAC/WH/OLAC/MCAMPOS
USDOC ALSO FOR 3134/USFCS/OIO/WH
STATE PASS EXIMBANK
STATE PASS OPIC FOR DMORONESE, NRIVERA, CMERVENNE
PARIS FOR ECON - TOM WHITE
USAID FOR LAC/AA

E.O. 12958: N/A
TAGS: ECON ETRD EFIN EIND BR
SUBJECT: BRAZIL'S NEW GDP METHODOLOGY RESULTS IN HIGHER GROWTH FIGURES

¶1. SUMMARY: The Brazilian Institute of Geography and Statistics (IBGE), in an effort to bring its methodology to determine Brazil's GDP growth into line with international standards, recently revised its current methodology, establishing 2000 as the base year. The highest differences between the new and the old GDP series are concentrated in the period from 2000 through 2006. The new method yields an accumulated growth figure of 24.1 percent compared to 19.6 percent under the previous method. Higher economic growth in 2006 and changes in key solvency indicators, notably the debt-to-GDP ratio, will better capture the momentum of internal demand. End Summary.

BRAZIL'S GDP REVISION IN LINE WITH INTERNATIONAL STANDARDS

¶2. Using a new methodology that follows international standards established by the United Nations and other organizations such as the International Monetary Fund (IMF) and the World Bank, the Brazilian Institute of Geography and Statistics (IBGE) recently released revised Gross Domestic Product (GDP) figures for the years 2000 through 2006 that showed greater economic expansion than previously registered. The new series uses a broader range of information sources, including IBGE's annual surveys of economic segments as well as information from tax receipts and household surveys, aiming at a better measurement of the country's GDP. As a result, certain economic activities that previously were only estimated, such as government consumption and financial intermediation, are now actually measured. Another improvement is an updating of the weight of different economic activities, so that services such as telecommunications and transportation are given more weight.

¶3. The new GDP series presented higher real growth rates for five out of the six years released (see below). The highest differences

were registered in 2002 and 2004, when rates moved to 2.7 percent and 5.7 percent from the 1.9 and 4.9 percent previously calculated. Total growth in the period was revised upward to 19.3 percent versus 16.3 percent under the old methodology.

Comparing GDP Growth:

	Old GDP Series (percent)	Revised GDP Series (percent)
2005	2.3	2.9
2004	4.9	5.7
2003	0.5	1.1
2002	1.9	2.7
2001	1.3	1.3
2000	4.4	4.3

¶4. Looking at GDP demand indicators, the changes were concentrated in the areas of 1) an increase of household consumption to 60 percent of GDP from the previous 55 percent; 2) a reduction of investments to 16.3 percent of GDP from previous 20.1 percent; and 3) a decrease in exports to 15.1 percent from previous 16.7 percent. The reduction of investment participation was concentrated in civil construction, while capital goods consumption increased to 7.8 percent of GDP.

¶5. A significant change was the proportion of services from the supply side indicators. This component participation climbed to 66.7 percent in 2000 from 56.3 percent calculated under the old methodology, propelled by higher contributions from telecommunications, retail, transportation and other services. On the other hand, there was a reduction in the share of agriculture and industrial activity from 7.7 percent to 5.6 percent and from 36.1 percent to 27.7 percent, respectively.

¶6. According to the new methodology, investment comprised a smaller share of the economy between from 2000 and 2005 than previously estimated. Also, the growth previously registered in investment's share of GDP over the past two years was much smaller than originally thought.

Investment as a Share of GDP:

	Old GDP Series (percent)	Revised GDP series (percent)
2005	20.6	16.3
2004	21.3	16.1
2003	17.8	15.3
2002	18.3	16.4
2001	19.5	17.1
2000	19.3	16.8

BRAZIL REVISES GDP UPWARD FOR 2006 - A BRIGHTER OUTLOOK

¶7. Data released by IBGE using the new methodology showed more of an improvement in Brazil's GDP in 2006 than figures originally indicated, boosted by a 4.1 percent growth in agriculture, 4.6 percent in civil construction, and 4.8 percent expansion in the retail sector. Thus, using the new methodology, IBGE reported that the economy actually grew 3.7 percent versus the previous announcement of 2.9 percent - a difference of 0.8 percentage points. The new methodology takes into consideration 56 activities and 110 products, while the previous methodology used 43 activities and 80 products. The revised data showed Brazil's GDP was USD 1.1 trillion in 2006, an all-time high. IBGE also reported that per capita GDP climbed 2.3 percent in 2006 to USD 5,700, with household consumption was up 4.3 percent. Thus, accumulated GDP growth from 2000 through 2006 was 24.1 percent, as opposed to 19.6 percent using the old methodology. Also under the revisions, Brazil's debt as a percentage of GDP declined from 50 to 45 percent.

¶8. COMMENT: The new methodology introduced by IBGE indicates that Brazil's economic performance was stronger than previously reported. The new methodology also puts more emphasis than before on areas like technology, technological services and financial market

activities. The new GDP figures are intended to more accurately reflect the changing nature of the Brazilian economy. It is noteworthy, however, that the new figures reveal that investment comprises a smaller share of the economy than previously believed. Without reform of its pension system, application of more stringent controls of government expenses, improvement of the business environment, the effective implementation of structural reforms and a more open economy, Brazil will continue to struggle to attract investment and to sustain a more economic robust growth rate, regardless of methodology. End Comment.

¶9. This cable was coordinated with Embassy Brasilia.

MCMULLEN